

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 NEA-11 ISO-00 SOE-02 AID-05 CEA-01
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AMEMBASSY LONDON PRIORITY

AMEMBASSY MUSCAT PRIORITY

C O N F I D E N T I A L TEHRAN 5639

EO 11652: GDS

TAGS: ENRG, EINV, IR, TC

SUBJ: CRESCENT PETROLEUM PROBLEM

1. DURING CALL JUNE 12 BY DCM AND E/C COUNSELOR ON NIOC
DEPUTY MANAGING DIRECTOR HASSAN ALI MEHRAN, WE RAISED CRESCENT
PETROLEUM ISSUE. IN RESPONSE TO OUR QUERY OF HIS PERCEPTION
OF THE DISPUTE, MEHRAN SAID THAT HE HAD BEEN FOLLOWING THE
MATTER CLOSELY OVER THE LAST TWO MONTHS AND NOTED THAT THE
SHAH HAD BEEN KEPT "FULLY INFORMED" OF DEVELOPMENTS (READ:
NIOC'S POSITION IN THE WHOLE AFFAIR HAS FULL APPROVAL OF SHAH).
MEHRAN SAID WITH SOME SPIRIT THAT CRESCENT'S REQUEST FOR
ARBITRATION IS ABSOLUTELY NOT PERMISSIBLE UNDER THE CONCESSION
ARRANGEMENT. TAX AND ROYALTY MATTERS ARE ENTIRELY AN INTERNAL
MATTER FALLING WITHIN SHARJAH'S SOVEREIGNTY AND CANNOT BE
REFERRED TO ANY ARBITRATION BODY, HE SAID. ON ITS PART, NIOC
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WANTS MEANINGFUL NEGOTIATIONS TO RESUME BUT THESE CANNOT MOVE
AHEAD WITHIN ANY CONTEXT OF ARBITRATION. MEHRAN OBSERVED THAT
NIOC'S LEGAL STAFF HAD EXAMINED THE ISSUE OF ARBITRATION AND
FOUND IT HAD NO MERIT AS REGARDS THE SHARJAH CONCESSION. (WE
DEMURRED CITING LIBYAN EXAMPLE.) APPARENTLY CRESCENT HOPES, HE
SAID, TO PROLONG THE DISCUSSIONS BY MEANS OF ARBITRATION IN ORDER
TO LIFT AS MUCH OIL AS POSSIBLE AT INFLATED PROFIT MARGINS. PER-

HAPS, HE ADDED, THE ONLY WAY TO STOP THIS PLOY WOULD BE TO PREVENT LIFTING BY CRESENT.

2. WITH RESPECT TO THE PROFITABILITY OF THE ENTERPRISE TO CRESCENT (AND, BY CLEAR IMPLICATION, CRESCENT'S ABILITY TO PAY UNDER THE FORMULA WHICH THE COMPANY REJECTS, I.E., 77/14.5 PERCENT TAX/ROYALTY RETROACTIVE TO JULY 1, 1976), MEHRAN ASSERTED THAT IT IS INCONTESTABLE THAT CRESCENT HAS BEEN ENJOYING PROFITS SINCE 1976 WELL IN EXCESS OF WHAT THE OTHER FOREIGN JOINT VENTURE PARTIES OPERATING ELSEWHERE IN GULF HAVE BEEN RECEIVING. MAHRAN RETURNED TO THIS SCENARIO A NUMBER OF TIMES IN HIS REMARKS, EMPHASIZING WHAT CLEARLY IS THE STICKING POINT IN THE NEGOTIATIONS, AS FAR AS NIOC IS CONCERNED, I.E., A TAX/ROYALTY STRUCTURE FOR CRESCENT WHICH IS OUT OF LINE WITH THAT APPLICABLE TO OTHER JOINT VENTURES IN THE PERIAN GULF.

3. DCM NOTED THAT CRESCENT WAS PREPARED TO ACCEPT NEW RATE STRUCTURE BUT ISSUE OF RETROACTIVITY SEEMED TO BE THE MAJOR OBSTACLE TO AGREEMENT. MEHRAN AGREED AND SAID THAT NIOC HAD BEEN HOPEFUL THAT A COMPROMISE COULD HAVE BEEN WORKED OUT BETWEEN SHARJAH AND CRESECENT BUT LATTER HAD BROKEN OFF BARGAINING BY RESORTING TO ARBITRATION.

4. AT THE CONCLUSION OF THE CONVERSATION EMBOFFS ASKED MEHRAN IF HE COULD STATE FOR THE RECORD WHAT NIOC'S POSITION, IN BRIEF TERMS, WAS AT THIS JUNCTURE. HE REPLIED, "ONE OF COMPROMISE."
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5. ALTHOUGH MEHRAN MADE IT CLEAR THAT NIOC WILL INSIST ON NEW RATE STRUCTURE, HE ASSERTS THAT NIOC WANTS NEGOTIATIONS TO RESUME AND IS WILLING TO COMPROMISE. IT STRIKES US THAT THERE IS STILL BROAD SCOPE FOR NEGOTIATIONS UNLESS CRESCENT HAS DECIDED NOT TO PAY ANY RETROACTIVE PAYMENTS AND INTENDS, AS MEHRAN CHARGED, SIMPLY TO GET ALL THE OIL OUT IT CAN AND THEN LEAVE THE CONCESSION. WE, THEREFORE, RENEW OUR SUGGESTION THAT CRESCENT, IF IT REALLY WISHES TO NEGOTIATE THIS MATTER, UNDERTAKE DIRECT DISCUSSIONS WITH NIOC. WE NOTE THAT RULER OF SHAHJAH SAYS THAT HE WILL, IN THAT INSTANCE, STEP OUT OF THE PICTURE. THAT MIGHT BE USEFUL FOR ALL CONCERNED. IN ANY EVENT, THIS EMBASSY CAN NOT REPEAT NOT ATTEMPT TO NEGOTIATE ON BEHALF CRESCENT, AND, UNLESS CRESCENT WILLING COME TO GRIPS WITH NIOC DIRECTLY, SEES NO REPEAT NO FURTHER ROLE IT CAN PLAY IN THESE PROCEEDINGS.
SULLIVAN

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